



INSTITUTIONAL RESEARCH

Health & Commercial Services

COMPANY UPDATE

Member FINRA/SIPC

Toll Free: 866-928-0928 s www.DawsonJames.com s 925 Federal Highway, 6th Floor s Boca Raton, FL 33432

November 7, 2011

The GEO Group Inc. (NYSE/GEO)

Robert M. Wasserman

Director of Research

561-208-2905

rwasserman@dawsonjames.com

BUY Q3/11 in-line; Maintain Buy rating and earnings estimates

GEO is a provider of correctional and mental health services

Investment Highlights

1) The GEO Group (“GEO”) reported in-line financial results for their third quarter 2011 earnings last week, including earnings per share of \$0.41 (pro-forma) versus \$0.39 per share in the prior year period, on revenues of \$406.8 million, an increase of 25% year-over-year. Our estimates had been revenues of \$411 million and pro-forma EPS of \$0.40. Growth was led by increases in GEO Care revenues (up 80% year-over-year) and to a lesser extent revenue increases of about 12% in both US Detention & Corrections and International Services. Earnings in the quarter were boosted by improved margins, as both operating expenses (75.6% of revenues as compared with 76.5% in the year-ago-period) and general and administrative costs (6.4% versus 10.4%) were lower as a percentage of revenues, due primarily to higher average occupancies and economies of scale following several acquisitions completed in the past fifteen months.

2) Along with the Q3/2011 financial release, GEO management also provided guidance for the upcoming fourth quarter and 2011 year as a whole, including lower revenues as the Company decided to return inmates housed at its North Lake facility in Michigan to California (only 270 to date) and end this slow-to-develop contract. New revenue guidance is \$405-\$410 million for Q4/2011, down from \$413-\$418 million. Our estimate for Q4/2011 had been \$416.5 million (representing an 11% year-over-year increase); our revised estimate is \$409 million, or a 9% increase over Q4/2010. Despite the lower revenues, recent share buyback programs are expected to aid earnings per share results in Q4/2011, and thus we are maintaining our EPS estimates for GEO at \$0.40, down slightly from the \$0.41 per share recorded in Q4/2010. We are also maintaining our estimates for 2012, including revenues of \$1.75 billion (an increase of 8% from estimates for 2011E) and earnings of \$1.70 per share.

Current Price \$17.40

Price Target \$27.50

| Estimates | F2010A | F2011E | F2012E |
|------------------------------|------------------|------------------|------------------|
| Sales(\$mill) | \$1,246.7 | \$1,615.4 | \$1,735.0 |
| 1Q | 273.1 | 391.8 A | |
| 2Q | 273.8 | 407.8 A | |
| 3Q | 326.3 | 406.8 A | |
| 4Q | 373.6 | 409.0 E | |
| Prev. Rev. Estimate (\$ mil) | | \$1,627.1 | \$1,747.0 |

| EPS | \$1.51 | \$1.56 | \$1.70 |
|-----------------------|--------|---------------|---------------|
| 1Q | 0.34 | 0.35 A | |
| 2Q | 0.37 | 0.40 A | |
| 3Q | 0.39 | 0.41 A | |
| 4Q | 0.41 | 0.40 E | |
| Previous EPS Estimate | | \$1.55 | \$1.70 |
| P/E (x) | 11.5 | 11.1 | 10.2 |

| | | | |
|---------------|--------|--------|--------|
| EBITDA/Share | \$3.36 | \$4.48 | \$5.06 |
| EV/EBITDA (x) | 11.4 | 8.6 | 7.6 |

| Stock Data | |
|----------------------------------|-----------------|
| 52-Week Range | \$17.14-\$26.95 |
| Shares Outstanding (mil.) | 63.6 |
| Market Capitalization (mil.) | \$1,105.9 |
| Enterprise Value (mil.) | \$2,440.4 |
| Debt to Capital (9/11) | 58.5% |
| Book Value/Share (9/11) | \$16.45 |
| Price/Book | 1.1 x |
| Average Trading Volume (3-Month) | 735,000 |
| Insider Ownership | 15.7% |
| Institutional Ownership | 84.3% |
| Short interest (Million shares) | 4.0 |
| Dividend / Yield | \$0.00/0.0% |



Price target and ratings changes over the past 3 yrs:
Initiated - January 2, 2010 - Buy -Price Target \$27.50

Please find Important Disclosures beginning on Page 5.

3) This year (2011) may go down as an up-and-down period for GEO, primarily due to struggling state governments, despite philosophical gains made this year at the highest levels of state government regarding increasing privatization of state-run correctional, mental health, and work release facilities. Even though hoped-for expansion of services to California (North Lake) and Florida (Region IV) did not materialize, the Company did make some progress in growing its correctional services business with state clients in 2011, including new builds in Georgia (Riverbend) and Indiana (New Castle expansion) as well as the ramp-up of the new Blackwater facility in Florida, initially opened in late 2010. US Federal and International (also primarily National-level contracts clients) showed solid growth in 2011, including new contracts in California for the Federal ICE (Immigration) program and in the UK, also in the immigration area. Going forward, we anticipate that in 2012 GEO could see steady growth related to new contracts on the Federal level in the US, GEO Care, and internationally in the UK, while the Company continues to lay the groundwork for major new contracts for large privatization programs with State contracts (Ohio, Florida and Arizona) as well as International clients (New Zealand, the United Kingdom and South Africa, for example).

Conclusion/Stock Valuation

GEO shares have pulled back as this year has progressed, reflecting weak state government economies and a weak overall stock market, after nearing new highs (and our \$27.50 price target) earlier this year on investor enthusiasm related to potential synergies accruing from recent acquisitions. The flip side of the current economic uncertainties is that unprecedented opportunities for privatization are cropping up, and GEO may return to a growth mode as early as next year. Therefore we are maintaining our Buy rating on GEO and 12-18 month price target of \$27.50, just 18X estimated 2011E earnings of \$1.55 per share.

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by The GEO Group with other companies in the industry, we believe risks to our price target include the following:

- **Reliance on Government Spending** - GEO is reliant on funding from state governments, the US federal government, and other foreign governments to provide reimbursement for its prison facilities. Currently, several large US states including California and Florida are experiencing budget difficulties which could inhibit the growth of the Company's business, despite severe overcrowding for many states.
- **Existing Litigation** - GEO has experienced several cases where inmates or families of inmates have sued the prison facility operator, and the increasing incidence of inmates being sent outside their home state has exacerbated this trend. Recently, the Company signed new agreements to house inmates outside of their home state, and thus may be opening the Company up to additional lawsuits in the future.
- **Dependence on acquisitions for growth** – Historically, GEO has been active on the acquisition front, especially most recently, and much of the Company's advancement has arisen from acquisition-related growth. There can be no assurance that in the future acquisitions will be made (particularly in the increasingly consolidating correctional services market) nor that financing will be available should acquisition opportunities arise.
- **Idle facilities** – The Company currently owns several idle and empty prison facilities, most notably the 2,500 bed North Lake Correctional Facility in Baldwin, Michigan. The continued operation of idle facilities pose additional risks and difficulties for prison operators, and there can be no assurance that the Company will be able to fill its idle prison beds or return these facilities to profitability in the near future.

- **Exposure to International Operations** – Currently, the GEO Group derives approximately 13% of its revenues from International operations, principally South Africa, the United Kingdom and Australia. Any variability in currency valuations from these three countries or other jurisdictions in the future may have a material adverse affect on the Company's financial results.

The GEO Group, Inc.
Consolidated Statements of Income
(In 000s, except per share data)

| Calendar Year | 2008 | 2009 | 1Q10 | 2Q10 | 3Q10 | 4Q10 | 2010 | 1Q11 | 2Q11 | 3Q11 | 4Q11E | 2011E | 2012E |
|-------------------------------------|-------------|-------------|-----------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|-----------|-------------|-------------|
| Revenues | \$1,054,551 | \$1,141,090 | \$287,542 | \$280,095 | \$327,933 | \$374,398 | \$1,269,968 | \$391,766 | \$407,817 | \$406,847 | \$409,000 | \$1,615,430 | \$1,745,000 |
| Pass-through revenues | 85,834 | 97,985 | 14,451 | 6,333 | 1,638 | 834 | 23,256 | 0 | 0 | 0 | 0 | 0 | 10,000 |
| Net revenues | \$968,717 | \$1,043,105 | 273,091 | 273,762 | 326,295 | 373,564 | \$1,246,712 | 391,766 | 407,817 | 406,847 | 409,000 | \$1,615,430 | 1,735,000 |
| Operating expenses | 746,859 | 799,371 | 211,931 | 210,791 | 249,462 | 280,672 | 952,856 | 299,386 | 308,644 | 307,721 | 307,600 | 1,223,351 | 1,301,300 |
| Depreciation & amortization | 37,578 | 39,306 | 9,238 | 9,474 | 13,384 | 16,015 | 48,111 | 18,802 | 21,056 | 21,974 | 22,500 | 84,332 | 90,000 |
| General & administrative expenses | 69,151 | 69,240 | 17,448 | 20,458 | 33,925 | 34,336 | 106,167 | 32,788 | 27,710 | 25,922 | 28,600 | 115,020 | 126,700 |
| Operating income (loss) | 115,129 | 135,188 | 34,474 | 33,039 | 29,524 | 43,375 | 139,578 | 40,790 | 50,407 | 51,230 | 50,300 | 192,727 | 217,000 |
| Interest and other expense, net | (18,098) | (27,243) | (5,995) | (5,833) | (16,696) | (8,905) | (37,429) | (14,320) | (15,950) | (17,063) | (17,000) | (64,333) | (63,000) |
| Income (loss) before tax | 97,031 | 107,945 | 28,479 | 27,206 | 12,828 | 34,470 | 102,149 | 26,470 | 34,457 | 34,167 | 33,300 | 128,394 | 154,000 |
| Income tax expense (benefit) | 34,350 | 41,991 | 10,807 | 10,189 | 7,547 | 10,972 | 39,515 | 9,780 | 12,879 | 12,649 | 11,990 | 47,298 | 55,440 |
| Net income (loss) | 62,681 | 65,954 | 17,672 | 17,017 | 5,281 | 23,498 | 62,634 | 16,690 | 21,578 | 21,518 | 21,310 | 81,096 | 98,560 |
| Basic income per share | \$1.24 | \$1.30 | \$0.35 | \$0.35 | \$0.09 | \$0.37 | \$1.13 | \$0.27 | \$0.33 | \$0.34 | \$0.34 | \$1.28 | \$1.59 |
| Diluted income per share | \$1.21 | \$1.27 | \$0.34 | \$0.35 | \$0.09 | \$0.36 | \$1.12 | \$0.26 | \$0.33 | \$0.34 | \$0.34 | \$1.27 | \$1.58 |
| Pro-Forma income per share | \$0.96 | \$1.40 | \$0.34 | \$0.37 | \$0.39 | \$0.41 | \$1.51 | \$0.35 | \$0.40 | \$0.41 | \$0.40 | \$1.56 | \$1.70 |
| Pro-Forma EPS net of start-up/int'l | \$1.27 | \$1.42 | \$0.34 | \$0.37 | \$0.39 | \$0.41 | \$1.51 | \$0.35 | \$0.40 | \$0.41 | \$0.40 | \$1.56 | \$1.70 |
| Basic shares outstanding | 50,539 | 50,877 | 50,711 | 48,776 | 57,799 | 64,231 | 55,379 | 62,291 | 64,455 | 63,340 | 62,500 | 63,147 | 62,000 |
| Diluted shares outstanding | 51,774 | 51,918 | 51,640 | 49,314 | 58,198 | 64,697 | 55,962 | 64,731 | 64,858 | 63,555 | 62,750 | 63,974 | 62,500 |
| Key ratios: | | | | | | | | | | | | | |
| Revenue growth | 5.8% | 7.7% | 11.0% | 9.5% | 27.0% | 28.8% | 19.5% | 43.5% | 49.0% | 24.7% | 9.5% | 29.6% | 8.0% |
| Operating expenses/revenues | 77.1% | 76.6% | 77.6% | 77.0% | 76.5% | 75.1% | 76.4% | 76.4% | 75.7% | 75.6% | 75.2% | 75.7% | 75.0% |
| G & A/ Revenues | 7.1% | 6.6% | 6.4% | 7.5% | 10.4% | 9.2% | 8.5% | 8.4% | 6.8% | 6.4% | 7.0% | 7.1% | 7.3% |
| Tax Rate | 35.4% | 38.9% | 36.7% | 34.6% | 25.6% | 37.2% | 38.7% | 33.2% | 43.7% | 42.9% | 36.0% | 36.8% | 36.0% |
| Cash Flow/share | \$1.94 | \$2.11 | \$0.52 | \$0.54 | \$0.32 | \$0.61 | \$1.99 | \$0.58 | \$0.69 | \$0.72 | \$0.73 | \$2.73 | \$3.16 |
| EBITDA/share | \$2.95 | \$3.44 | \$0.85 | \$0.86 | \$0.74 | \$0.92 | \$3.36 | \$0.96 | \$1.14 | \$1.19 | \$1.20 | \$4.48 | \$5.06 |

Balance Sheets

(\$000s)

| | 1/2/11 | 10/2/11 |
|-----------------------------|------------------|------------------|
| Assets: | | |
| Cash and equivalents | \$39,664 | \$43,956 |
| Restricted cash | 41,150 | 41,033 |
| Accounts receivable, net | 275,778 | 274,294 |
| Other current assets | 65,492 | 66,583 |
| Total current | 422,084 | 425,866 |
| Property & equip., net | 1,511,292 | 1,673,851 |
| Restricted cash | 49,492 | 53,274 |
| Goodwill & intangibles | 324,407 | 717,800 |
| Other | 105,098 | 119,799 |
| TOTAL ASSETS | 2,412,373 | 2,990,590 |
| Liabilities: | | |
| Accounts payable | \$73,880 | \$72,216 |
| Accrued expenses | 151,833 | 177,306 |
| Other | 41,574 | 51,204 |
| Total current | 267,287 | 300,726 |
| Long-term debt | 989,730 | 1,472,804 |
| Other long-term liabilities | 115,866 | 171,827 |
| Shareholders' equity | 1,039,490 | 1,045,233 |
| TOTAL LIAB & EQ | 2,412,373 | 2,990,590 |

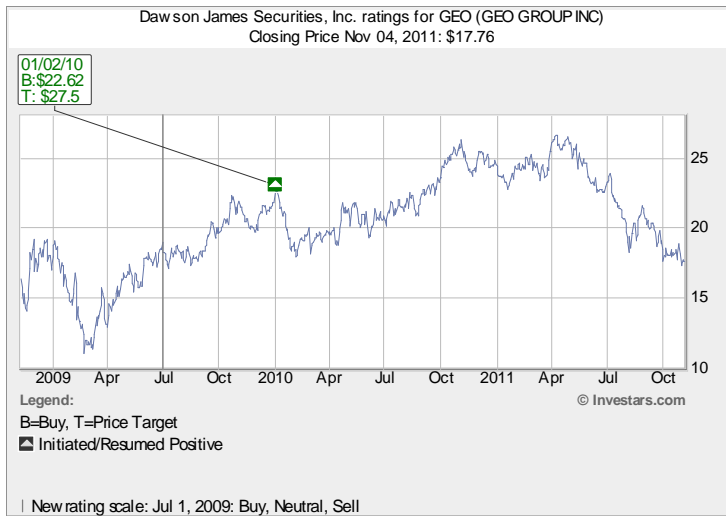
Quarterly Earnings Comparisons

| | March | June | Sept | Decem | Total |
|--|---------|---------|---------|---------|-----------|
| Revenues (in \$Mill) (Before pass-throughs) | | | | | |
| 2000 | | | | | \$535,557 |
| 2001 | | | | | 562,073 |
| 2002 | | | | | 517,162 |
| 2003 | 133,574 | 140,268 | 144,757 | 148,842 | 567,441 |
| 2004 | 146,058 | 150,308 | 152,035 | 166,148 | 614,549 |
| 2005 | 154,030 | 158,179 | 149,457 | 164,874 | 626,540 |
| 2006 | 184,778 | 191,152 | 200,409 | 210,404 | 786,743 |
| 2007 | 215,304 | 231,883 | 233,009 | 235,037 | 915,233 |
| 2008 | 232,868 | 250,139 | 240,620 | 245,090 | 968,717 |
| 2009 | 246,051 | 249,995 | 256,996 | 290,063 | 1,043,105 |
| 2010 | 273,091 | 273,762 | 326,295 | 373,564 | 1,246,712 |
| 2011E | 391,766 | 407,817 | 406,847 | 409,000 | 1,615,430 |
| Earnings per Share (Pro-forma) | | | | | |
| 2000 | | | | | \$0.81 |
| 2001 | | | | | 0.91 |
| 2002 | | | | | 0.28 |
| 2003 | 0.13 | 0.16 | 1.51 | 0.18 | 0.78 |
| 2004 | 0.14 | 0.27 | 0.40 | 0.38 | 1.19 |
| 2005 | 0.09 | 0.15 | 0.01 | (0.04) | 0.21 |
| 2006 | 0.16 | 0.23 | 0.23 | 0.27 | 0.91 |
| 2007 | 0.22 | 0.26 | 0.29 | 0.27 | 1.04 |
| 2008 | 0.25 | 0.31 | 0.33 | 0.37 | 1.27 |
| 2009 | 0.31 | 0.33 | 0.38 | 0.40 | 1.42 |
| 2010 | 0.34 | 0.37 | 0.39 | 0.41 | 1.51 |
| 2011E | 0.35 | 0.40 | 0.41 | 0.40 | 1.56 |

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated – January 2, 2010 – Buy - Target \$27.50

Analyst Certification: The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Dawson James has not received investment banking compensation from the company mentioned in this report and is not actively seeking compensation for investment banking services in the future. Dawson James does not make a market in this security. Neither the research analyst whose name appears on this report nor any member of his household is an officer, director or advisory board member of the company. Dawson James did not receive any other compensation from the company in the previous 12 months. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future, but the firm as a whole does not beneficially own 1% or more of any class of common equity securities of the subject company.

Ratings definitions: 1) **Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; 2) **Neutral:** the stock is fairly valued for the next 12-18 months; and 3) **Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

| Ratings Distribution | Company Coverage | | Investment Banking | |
|----------------------|------------------|------------|--------------------|-------------|
| | # of Companies | % of Total | # of Companies | % of Totals |
| Buy | 27 | 84% | 8 | 30% |
| Neutral | 5 | 13% | 3 | 75% |
| Sell | 1 | 3% | 0 | 0% |
| Total | 32 | 100% | 11 | 34% |

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

DAWSON JAMES SECURITIES, INC., Member SIPC, FINRA, (the "Firm") does not make a market in these securities. The Firm may perform or seek to perform investment banking services for these companies in the future. Analysts receive no direct compensation in connection with the firm's investment banking business. All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report. The Firm, its officers, directors, analysts or employees may effect transactions in and have long or short positions in the securities (or options or warrants with respect thereto) mentioned herein. Although the statements of fact in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice. The Firm may effect transactions as principal or agent in the securities mentioned herein. The securities discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.